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RUEHAC/AMEMBASSY ASUNCION 6453  
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RUEHMN/AMEMBASSY MONTEVIDEO 6661  
RUEHSG/AMEMBASSY SANTIAGO 0680  
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SENSITIVE

WHA FOR WHA/BSC AND WHA/EPSC  
E FOR THOMAS PIERCE  
EEB/CBA FOR FMERMOUND  
PASS USTR FOR KATHERINE DUCKWORTH AND MARY SULLIVAN  
PASS NSC FOR DPRICE AND MSMART  
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE  
TREASURY FOR MMALLOY, LTRAN  
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER  
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SUBJECT: COUNCIL OF THE AMERICAS CONFERENCE: GOA CHARM  
OFFENSIVE

Ref: (a) Buenos Aires 1545  
(b) Buenos Aires 1544  
(c) Buenos Aires 1519  
(d) Buenos Aires 1517  
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(f) Buenos Aires 1456  
(g) Buenos Aires 1415

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Summary  
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11. (SBU) The GoA used this year's Council of the Americas conference in Buenos Aires both to claim economic success and to stress its interest in U.S. investment. The high profile GoA presence, and particularly presidential candidate Cristiana Kirchner's wrap-up speech, have been widely seen as an effort to add balance to Argentina's foreign relations which had tipped noticeably to Venezuela in many observers minds. The Council of the Americas' leadership gave Senator Kirchner a very warm welcome which was apparently intended to encourage her recent signals of taking a more open approach to international affairs, while she is still defending the model her husband has championed. Some have been critical of the Council's approach because serious questions about the sustainability of the model and investor confidence have yet to be addressed. That said, the Senator's signs of openness to other countries and perspectives are important given her strong lead in the presidential polls.  
End Summary

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The GoA: Upbeat and On-Message  
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12. (SBU) On August 7, key GoA Ministers and Cristina Kirchner addressed an "Innovation to Consolidate Growth" conference organized by the Council of the Americas. Speakers included the Chief of Cabinet Alberto Fernandez, Planning Minister Julio de Vido, Finance Minister Miguel Peirano, Foreign Affairs Minister Jorge Taiana, and President of the Central Bank Martin Redrado. All of them took credit for 55 months of consecutive economic growth and ratified the main tenets of the current GoA economic model: maintaining a consistent primary fiscal surplus, sustaining a "competitive" undervalued currency (and linked trade surplus), holding sizeable foreign currency reserves to cushion the economy against external shocks, and actively promoting and protecting Argentina's growing industrial sector.

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Planning Minister De Vido: What Energy Crisis?  
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13. (SBU) Planning Minister De Vido, as in his recent public and private statements (Refs E, F), denied there is an energy shortage and attributed recent GoA electricity and gas rationing to industrial users to a combination of the coldest winter in 45 years, drought conditions that have restricted hydro production and record GDP growth that has boosted demand. He did not address industry charges that current shortages are the outcome of the GoA's serial interventions in the hydrocarbon and electricity sectors and below-market caps on refined hydrocarbons and electricity prices. De Vido said that current energy "constraints" will be fully addressed by GoA plans to bring on-line over 4,000 MW of new generating capacity in 2008/9,

including the 745 MW Atucha II nuclear facility, 1,600 MW from the two FONINVENMEM generators due to come on-line in 2009, 910 MW in energy savings from the GoA's Total Energy initiative, and 1,600 MW of capacity from a recently announced tender by state-owned energy company ENARSA to acquire seven new electricity turbines (Ref F). President Kirchner, he said, will visit Bolivia August 10 to affirm recent agreements to expand natural gas pipelines and to have Argentina fund a gas drying plant on the Bolivian side of the border to be linked to the pipeline.

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Cabinet Chief Fernandez: Transiting Purgatory  
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14. (SBU) Chief of Cabinet Alberto Fernandez lauded GoA economic performance to date and said that the Kirchner administration had significantly improved institutional quality by restricting the ability of the GoA to appoint Supreme Court judges. "We have come from another reality and are now back in the world," he said, adding that Argentina had left the "hell" of the 2001/2 economic crisis, was successfully transiting the "purgatory" of economic and political renewal, but was not quite yet at the doors of a "paradise" where the crisis' legacy of misery, indigence and societal disorder have been fully overcome. Fernandez predicted that Argentine growth would stabilize at Chile-like rates of five to six percent. He offered that Argentina needs to reinsert itself in the international community, saying that "up to now we have governed in emergency, but now we will govern with the rules of normality." Finally, in response to a question from a Dow Jones reporter on the recent outsized jump in Argentina's country risk premium, Fernandez attributed the increase entirely to sub-prime induced market volatility, discounting any connection to increasing domestic inflation and/or GoA efforts to low-ball headline inflation statistics.

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BCRA Governor Redrado: Passing Market Volatility Test  
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15. (SBU) Central Bank (BCRA) President Martin Redrado defended Argentina's "administered" float and argued that the BCRA's successful defense of the peso's trading range during the prior week's extraordinary market volatility was proof that the GoA's monetary and reserve accumulation policies are working well to discourage speculation. He called Argentine banks solid and noted they are increasingly using local capital markets to fund their growth. The progressive drop in public sector assets held in private bank asset portfolios (from over 60% at the peak of the economic crisis to under 20% currently), he said, is freeing up reserves to support private sector growth. Redrado cited Chile's successful taming of high inflation rates in the 1980s and said that Argentina is studying the examples of neighboring countries that have successfully transitioned out of economic crisis. Lowering Argentine inflation rates, he concluded, will take the coordinated management of fiscal policy, dampening wage rate demands, maintenance of a "competitive" exchange rate, and monetary policy tools.

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Economy Minister Peirano: Industrial Promotion Focus  
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16. (SBU) Like his peers, Peirano ratified the main pillars

of the economic model (twin surpluses, an undervalued exchange rate, and accumulation of international reserves) but placed special emphasis on "active" GoA promotion of sector-specific initiatives to promote industrial development. (Note: This emphasis was widely interpreted in the media as support for continued protectionist trade policy and subsidized energy prices.) Peirano also emphasized the importance of sustaining "the internal market." (Note: This is widely understood code for maintaining a weak currency and deploying consumption-boosting measures such as salary hikes and tax breaks. His comment came after an increase last month in the minimum non-taxable income level - of up to 900 pesos per month per household - which critics described as a fiscally irresponsible pre-election gift to voters. End Note). Peirano focused the remainder of his remarks on trade and industrial promotion, noting Argentina's active participation in Mercosur consolidation talks and in multilateral Doha agriculture and NAMA negotiations. He did not address Paris Club or bond holdout issues managed by his Ministry.

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Candidate Cristina Kirchner: Few Specifics, But...  
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17. (SBU) The Council of the Americas conference was reconvened in the late afternoon to accommodate the schedule of Senator, First Lady and front-runner Presidential candidate Cristina Kirchner. In a 45-minute speech without notes, Kirchner defended the Argentine-specific model of growth and development championed by her husband but presented it in a less confrontational style designed to suggest some room for evolution ahead. She called Argentina "a good place to do business," dismissed the energy crisis (calling a California blackout she had personally experienced "no big deal") and defended the GoA's "accumulation model", which she said had restored jobs and household spending power and had "reinserted Argentina into the world." Kirchner claimed that a competitive exchange rate had created a diversified economy, which - along with a flexible, publicly educated workforce - left the country more resilient to outside shocks. She called for a domestic social pact between state, business, and workers to define long-term policies. Kirchner also outlined that Argentina needs to build on its advantages in the high tech and services areas which have attracted new investments in part because of Argentina's

talented and relatively plentiful college educated population.

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Private Economists: Call to Realism  
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¶8. (SBU) Standard & Poor's sovereign analyst Sebastian Briozzo and Merrill Lynch economist Pablo Goldberg highlighted worrisome trends in inflation, in energy infrastructure and in the government's capacity to borrow money and warned that the GoA's expansionary economic policies are increasing its vulnerability to external shocks. Briozzo said the country's continued fiscal surplus and a less vulnerable debt structure, with long-dated bond maturities, makes it less susceptible to shocks than it was before the 2001/2 financial crisis. But he also warned that absolute debt levels remain high; Argentina is overly dependence on commodity exports; Argentina has failed to "consolidate political sustainability;" and it has a damaging reputation for

changing "the rules of the game." He observed that "we will see more (structural) bottlenecks and we want to see how Argentina breaches its history of volatility," citing the country's boom-bust economic record of the past half century.

¶9. (SBU) Goldberg called the decline in the primary budget surplus to 2.7% of GDP (the Merrill Lynch forecasts for 2007) a disturbing result, given that GDP has grown by 51% since 2002 while the surplus has averaged 3.3%. That the GoA has not used this growth to develop a bigger fiscal buffer means "Argentina is not investing in macroeconomic insurance against future shocks," he said. Goldberg added that the GoA's intervention in the national statistics agency (INDEC) and blatant manipulation of inflation rates have seriously damaged its financing flexibility, since bondholders no longer trust the pricing mechanism for bonds linked to the consumer price index. Argentina can now neither issue at fixed rates or with inflation-indexed bonds, Goldberg said.

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Ambassador's Dinner i/h/o Council President Segal  
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¶10. (U) On August 6, Ambassador hosted a dinner for COA President Susan Segal with a group of 25 business leaders who are supporters of the COA and strong proponents of closer ties to the United States. Attendees included Carlos de la Vega, President of the Argentine Chamber of Commerce; Eduardo Eurnekian, President of Aeropuertos 2000; Julio Werthein, President of the InterAmerican Commerce and Production Council; Adelmo Gabbi, President of the Buenos Aires Stock Exchange; Enrique Mantilla, President of the Export Chamber of Commerce; Eduardo Pablo Amadeo, Former Ambassador to the U.S.; Felipe Rovera, President of GM Argentina; Juan Bruchou, President of Citibank; Jorge Brito, President, Banco of Macro Bansud; Eduardo Elsztain, Chairman of IRSA; Clarisa Estol, President of Banco Hipotecario; Marcelo Mindlin, Chairman of the Grupo Dolphin; Miguel A. Gutierrez, Partner of TRG Management (The Rohaytn Group); Alixandre Schijman, Executive Director for Global Policy of Time Warner; Luis Ribaya, Director, Banco Galicia; and Maria Garana Corces, Regional Director for the Southern Cone, Microsoft.

¶11. (SBU) A number of the guests arrived after attending a ceremony at the Casa Rosada with Hugo Chavez. They commented that Chavez' remarks were longwinded, but that overall the ceremony and his visit to Buenos Aires were low key. All of the guests expressed their appreciation for the role the Council plays in providing Argentine officials a forum to reach out to the business community in a collegial atmosphere. While all expressed some concern

about growing economic distortions, most believed that Argentina will continue to grow and feel that a Cristina Kirchner follow-on administration will be in a better position to take steps to address these distortions.

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Comment  
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¶12. (SBU) At the conference, private economists' warnings on growing distortions stood in stark contrast to the uniformly upbeat outlook offered by government officials. Cristina Kirchner's participation, immediately following a visit by Venezuela President Hugo Chavez, was broadly viewed as a sign that she intends to cultivate stronger

relations with the United States. Though her campaign describes her as a "candidate of change," her Council speech's defense of Argentina's "accumulation" model suggests that she intends to continue applying the current mix of heterodox macro- and micro-economic policies with only slight initial modifications. There is much agreement among private sector economists, bankers and business leaders, however, that more significant and painful adjustments in the model will be required to sustain Argentine economic growth.

¶13. (SBU) Given Cristina Kirchner's large lead in the polls, many private sector leaders who attended the Council of the Americas event said privately that they believe the best hope for policy change is to encourage the signs of openness to other points of view in the Senator's pronouncements and to work behind the scenes to influence her thinking and that of her future advisors. This was clearly the tact taken by the organizers of the Council event. This is far from a sure thing, but it may well be the most helpful path in the near term for those seeking economic policy shifts in Argentina.

WAYNE